EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Final Year First Semester Examination in Bachelor of Commerce (Specialization in Accounting and Finance)-2012/2013(March/April 2015)(Repeat)

DAF 4043 Portfolio Investment Analysis

Answer All Questions

Time Allowed: 03 Hours

Non Programmable Calculators are permitted.

(I) Explain the difference between direct and indirect investing

(10 Marks)

(II) List out and explain the different types of Investment Vehicles

(10 Marks)

(Total 20 Marks)

(I) Calculate the Expected Rate of Return and the Standard Deviation of the Returns for an investment which has the following possible returns with associated probabilities.

Possible Returns (%)	10	20	15	05	- 10
Probabilities	0.15	0.25	0.20	0.25	0.15

(10 Marks)

(II) Securities P and Q have the following characteristics:

Probability	Possible Return (%)	
	Security P	Security Q
0.15	-10	30
0.25	12	15
0.40	10	05
0.20	25	-12

Required:

Calculate the following:

(a) The Expected Rate of Return and Standard Deviation of returns for each security.

(b) The Expected Rate of Return and the Standard deviation of the returns for the portfolio of P and Q, combined with weights of 70% and 30% respectively.

(20 Marks)

(Total 30 Marks)

03. (I) Describe the key assumptions underlying CAPM

(10 Marks)

(II) If the expected return on an asset having a Beta of 2 is 20% and the return on the market portfolio is 15%, what is the risk-free rate of return according to the CAPM?

(10 Marks)

(III) Calculate the expected rate of return for security j from the following information:

Rf =15% Rm =18% βj =1.75

(10 Marks)

(Total 30 Marks)

04. (I) What is meant by an "Market Efficiency"?

(10 Marks)

(II) From the following data compute beta of security j

σ_j = 20% σ_m = 10% Cor_{jm} = +0.6

(10 Marks)

(Total 20 Marks)